August 26, 2005

From: Peter Neukirch

To: The Finance Committee of the Colorado Blue Ribbon Panel on Housing

Realizing that the final report of the Blue Ribbon Panel may not include a proposal for a new tax to support low and middle-income housing, a minority report has been proposed by Peter Neukirch.

This proposal aims to:

1. Identify an indirect way to generate new revenue for the development of low and middle-income housing.
2. Garner broad based support.
3. Put more responsibility on local communities.
4. Expand business and stimulate the economy.

Colorado may be losing its competitive edge

Colorado may be losing its competitive edge to attract a needed labor force if critical state investments are not made by the end of the decade.

Growth in the United States is concentrated in ten megapolitan areas, now being called "super cities". Five of these are located west of the Mississippi River. They include: the I-35 corridor from Kansas City, MO to San Antonio, TX; the I-10 corridor from Tucson, AZ to Los Angeles, CA; the I-10/I-15 corridor from Las Vegas, NV to Santa Barbara, CA; the I-5 corridor north and south of San Francisco, CA; and the I-5 corridor from Eugene, OR to Seattle, WA. Super cities, as described by Interstate Highways publication, are composed of major airports and a growing population in areas between major cities, creating connections in less dense parts of the country.

Researchers at the University of Pennsylvania predict that by 2050, more than 300 million people, about 70% of the U.S. population, will live in eight super city regions that today have a population of about 175 million.

The I-25 corridor from Ft. Collins to Colorado Springs at this time is not considered a super city area, although the area is served by a major airport and is connected by a growing population. Is it possible that Colorado's megapolitan area can compete with the western "super cities" for the labor market?

This question is prompted by some underlying facts:

1. At the end of the decade, 60 million American workers will reach retirement age. This undoubtedly will create a labor shortage.

2. Approximately 75% of all new jobs created will pay less than $20 per hour for some time to come.
3. Housing prices in Colorado continue to grow much faster than income, putting a real squeeze on low and middle-income workers searching for jobs in Colorado.
4. Tuition and fees at State institutions of higher education keep rising to the point that even the middle class no longer can afford to send their children to Colorado colleges and universities.
5. Local jurisdictions will benefit very little from the passing of Referenda C.
6. The State transportation budget has been cut by more than $200 million per year for the last several years. The 2030 shortfall forecast (needs vs. revenues) just to maintain the existing road system is $39 billion. This does not include revenues needed to accomplish corridor vision improvements throughout the State. This would cost an additional $64 billion. If these gaps are not financed, the funds presently estimated to be available through 2030 fall far short of being able to meet the needs of the State's transportation vision. Nor will they maintain the systems' present day quality and performance levels. Under the current revenue forecast, today's approximately 60% good/fair rating for roadway surfaces on the state highway system will fall to 32%. Local roads will deteriorate. A growing number of the 8,413 bridges statewide will require road restrictions, increased maintenance or other special management measures to ensure safe conditions for people and goods (CDOT). This will have a devastating effect on moving people, goods and services, and national reports regarding traffic congestion will have a negative effect on capital investment in the state. This is not an attractive situation for business expansion.
7. Ecologically we are also falling behind in maintaining our statewide water quality systems, and water capacity is always front-page news.

How can Colorado's I-25 megapolitan area be competitive to attract low and middle income workers when housing is unavailable, national reports continue to downgrade our transportation system, and when higher education quality, and water quality and availability continue to be long term issues?

These circumstances raise serious concerns for Colorado business. We already have lost some of our skilled workers to out migration during the recent downturn in the economy, and it might be difficult to get them back.

This proposal addresses these issues. Finding new revenue for use at the state level to solve these problems is politically impossible. What is recommended is that a new source of revenue to be distributed to local jurisdictions for projects aimed at increasing Colorado's ability to be competitive. This strategy will help solve a statewide problem, but at the same time it insures decision making at the local level.

RECOMMENDATION:
To have a successful solution at the local level there needs to be a theme or concept to hold it together statewide. Therefore, it is recommended that the ideas of sustainable

development, the integration of social equity, ecological integrity, and economic prosperity guide Colorado in becoming more competitive.

The concept of sustainable development is not new. The Bruntland Commission (formally known as the United Nations World Commission on Environment and Development) brought the concept of sustainability to popular attention in 1987. They defined sustainable development as, "Development which meets the needs of the present without compromising the ability of future generations to meet their own needs." The Urban Land Institute defines it as "meshing the need for preserving, enhancing and interrelating economic prosperity, the integrity of natural ecosystems and social equity."

This concept fits naturally with the goals and objectives of this recommendation to be competitive in the next decade.

LOCAL JURISDICTION RESPONSIBILITY

Local jurisdictions must, by policy, create certain objectives and procedures.

1. Adopt the concept of sustainable development into their comprehensive plans.
2. Designate and establish priority-funding areas (PFAs) where revenues received will be invested.
3. PFAs will be limited to
    a. Local transportation corridors that need improvements – plans must be integrated with regional transportation plans.
    b. Areas where the principle use of land has been designated for employment, as well as low and middle-income housing for such employment.
    c. Upgrading water quality systems.
    d. Where water and sewer services are already in place or are easily and economically extended for the purpose of serving new employment facilities and its supportive housing.
    e. Areas defined in the jurisdictions' comprehensive plans for future acquisition of land within a 12 year period for the purpose of preserving land for open space (including vistas, cliffs, etc.), wildlife habitats, natural resources, and future employment and associated housing needs.
    f. Supporting local community colleges, if such are within their jurisdiction.
    g. In that part of a defined PFA that is designated by the local jurisdiction for residential use will be eligible for use of funds if:
        i. There exists an average of at least 4 units to the acre: or
        ii. If a portion of the existing community is undeveloped, and the permitted average density is less than 5 units per acre.

Source and Distribution of Funds:
1. The estate shall enact a real estate transfer tax to create the funds for this program.
2. The sellers of real estate property shall pay:
    a. Each residential transaction = 6 cents/100.00 of sales value.

    b. Each commercial/industrial transaction = 3 cents/100.00 of sales value
    c. Each vacant land transaction = 3 cents/100.00 of sales value
3. Distribution of Funds:
    a. Seventy-five percent of the tax revenue collected shall be earmarked as use for PFA projects in the city, town, rural village, or county where the tax is collected, as long as the local jurisdiction meets the requirement of the proposed act. If annual available funds are not used within a three-year period, the remaining funds will be placed in the States' discretionary fund.
    b. The State Department of Local Affairs shall use twenty-five percent of the tax revenue collected as discretionary funds to be used for PFA projects statewide under the same rules identified for local jurisdictions.

4. Administration

The Department of Local Affairs shall prepare guidelines, definitions, and methodologies for the administration of the program and its review, assist local governments in defining their proposed PFAs, establish procedures for certification approval and compliance measurement in connection with other state agencies, and commit funds to local jurisdictions for qualified projects. Guidelines should emphasize the concept of sustainable development to encourage the proper utilization of funds to promote the balance of economic prosperity, ecological integrity, and social equity.

The state PFA guidelines should not be interpreted as official state guidelines. Local jurisdictions may use the information contained in the state guidelines, modify it, or develop independent approaches, consistent with the law.

CONCLUSION

Until Colorado can unburden itself from "legislation by referendum", which has impacted our state constitution both positively and negatively, i.e. the conflicts between Gallagher, TABOR, Amendment 23 and others, and get us back to representative government, we will have to use the referendum process to negate some of the resulting shortcomings created by former constitutional amendments.

To keep Colorado's economy on a positive path we need to do something that actually helps business. Business provides a large portion of the state jobs and future job growth, which are the bases of a strong economy.

Although this proposal recommends a new tax, the use of those revenues will actually stimulate growth, especially in the housing market, which in turn will provide the revenue for the program.

The business benefits of this proposal will be broad based, especially on the following growth stimulators:

1. Available housing for low and middle-income workers will help employers recruit out of state workers and expand Colorado's labor market.
2. Improved local transportation coupled with state improvements and the rapid transit system being developed for the Denver metropolitan area will go a long way to eliminating the stigma of Colorado roads and highways being clogged with traffic congestion.
3. Having an added stream of income, local communities will be able to invest in projects, which will stimulate economic development and encourage outside capital investment.
4. The publicity of new and greater investment in local communities will create a bandwagon effect that Colorado is doing something to keep up with its growth and stimulate its economy.

References:

El Nasser, Haya. "Population boom spawns super cities", USA Today, July 11, 2005.

Hartman, Todd. "Tap water worries", Rocky Mountain News, July 18, 2005.

Colorado Department of Transportation. "2030 Statewide Transportation Plan", 2005.

National Association of Industrial and Office Properties. "Incentive Based Priority Funding Areas", a draft proposal for sustainable growth management, April 2002.

The term "Priority Funding Areas" is taken from the State of Maryland's Smart Growth Act of 1997.

"Sustainable Development" reference is taken from a position paper on growth prepared by the Southeast Business Partnerships Smart Growth Taskforce, 2001.